

CHAPTER 19DOD-WIDE AUDIT PROCESSA. PURPOSE

This chapter provides policy guidance, establishes procedures, and delineates responsibilities for planning and performing **DoD-wide** audits.

B. APPLICABILITY

The policies and procedures outlined in this chapter **apply** to the Army Audit Agency; the Naval Audit Service; the Air Force Audit Agency; and the Office of the Assistant Inspector General for Auditing (**OAIG-AUD**), Office of the Inspector General, Department of Defense (**OIG, DoD**) (hereafter referred to collectively as "**DoD** central internal audit organizations").

C. DEFINITIONS

1. Service Audit Organizations. The Military Departments' central internal audit organizations (Army Audit Agency, Naval. Audit Service, and Air Force Audit Agency) .

2. Service Auditors General. The Auditors General. of the Amy, Navy, and Air Force.

3. Audit Chiefs' Council. The Council is **composed** of the Inspector General, Department of Defense (IG, DoD); the Service Auditors General; the Assistant **Inspector** General for Auditing (**AIG-AUD**); the Assistant **Inspector** General for Audit Policy and Oversight (**AIG-APO**); and the Director, Defense Contract Audit Agency (**DCAA**). The IG, DOD, is the chairperson of the Audit Chiefs' Council.

D. POLICY

1. **DoD-wide** audits shall **be** performed in accordance with Government auditing standards issued by the **Comptroller** General of the United States and **DoD** internal. auditing standards contained in Chapter 2 of this Manual.

2. Applicable criteria shall **be** established and **followed** in identifying and selecting **DoD** programs, systems, and functions for **DoD-wide** audit coverage.

3. **Common** audit objectives and standard approach shall be used so that an overall evaluation of the audit subject may be made and a **summary DoD-wide** audit report may be prepared.

4. DOD-wide audit procedures shall contain the necessary management **controls** to ensure that effective centralized direction and coordination of the audit is maintained throughout the audit process. Effective management **controls** include the following:

a. Setting uniform audit start and **completion** dates to **ensure** that **DoD-**wide audits are **accomplished** in a responsive and timely manner.

b. Performing reviews and approvals at applicable audit milestones.

c. Coordinating and **monitoring** audit performance on a continuing basis to make sure audit objectives are being accomplished effectively and efficiently.

5. The DoD central audit organizations shall be responsible for **accomplishing** the MD-wide audit objectives within established timeframes and for processing the audit results within their respective areas of **primary** jurisdiction.

E. BACKGROUND

1. Audits of major **DoD** programs, systems, and functions performed jointly by the **DoD** central internal audit organizations are known as **DoD-wide** audits. IxD-wide audits are authorized and **supported** by the IG, DoD, for the following **purposes**:

a. IxD-wide audits **allow** for **prompt response** to high priority requests for comprehensive audit coverage.

b. "The Inspector General Act of 1978" (reference (a)) requires particular attention be given to the activities of the Military **Department** audit organizations with a view toward avoiding duplication and ensuring effective coordination and cooperation. One way to accomplish this is through joint planning and performance of **DoD-wide** audits by the **DoD** central internal audit organizations.

c. Successful **accomplishment** of **DoD-wide** audits demonstrates that the activities of the Department's internal audit organizations can be effectively coordinated and channeled **toward** meeting **common** objectives in support of the **DoD** audit mission.

2. **DoD-wide audits** inherently are more **complex** to perform and control than audits performed by a single audit organization. The intent of this chapter is to make the **DoD-wide** audit program a more formal and structured process to **accomplish** the intended **purpose**. Proper subjects that warrant **DoD-wide** coverage need to be identified, and **DoD-wide audits** need to be managed closely from start to finish. This implies that **someone** must be in charge and have the authority to carry out designated responsibilities.

F. SELECTION OF DOD-WIDE AUDITS

1. Planning Concept. Being **responsive** to requests for **audit** coverage by **DoD** and/or Service officials is a key to the success of the **DoD-wide** audit process. When possible, sufficient lead time should be anticipated for **incorporating DoD-wide** audits into the normal planning processes of the **DoD** central internal audit organizations. The audit planning process must be flexible to **accommodate quick-reaction** or time-sensitive matters. There may be cases when the annual audit **plans developed** by the **DoD** central internal audit organizations may have to be adjusted to **accommodate** a higher priority request for **DoD-wide** audit coverage.

2. Selection Criteria. Audit subjects selected for **DoD-wide audit** coverage generally shall have the following attributes:

a. The **audit** area is requested or suggested by the Secretaries of Defense or the Military Departments, the Deputy Secretary of Defense, the Under Secretaries of Defense, the Assistant Secretaries of Defense, the Heads of Defense Agencies, the IG, **DoD**, or the Services Auditors General.

b. The required audit coverage or time constraints are such that the resources of all **DoD** central internal **audit** organizations are required.

c. **The audit** candidates address major **DoD** issues, programs, and functions that involve the Military Departments with special emphasis **on** programs that are directed centrally or managed at the **DoD** level.

d. The audit proposals center on a single policy issue or functional benefit and are "high **payoff** and/or visibility" issues making it worth while to do **on** a **DoD-wide** basis.

e. The **audit** scope is **narrow enough** so that a draft **summary** DoD-wide audit report may be issued no later than 9 to 12 **months** after starting the audit execution phase.

Audit subjects that do **not** meet the criteria in paragraphs F. 2a. through **F.2.e., above**, shall be performed by the **OAIG-AUD** on an **inter-Service** basis or **accomplished** individually by the Service **audit** organizations.

3. **Audit Suggestions.** Procedures shall be established by each applicable audit organization for identifying and evaluating candidates for **DoD-wide** audits **from** suggestions received **from** Office of the Secretary of Defense (**OSD**) management off **icials** and f ran other high-level sources such as the President's Council on Integrity and Efficiency (**PCIE**). Evaluations of audit topics shall highlight and explain the **purpose** and benefits a **DoD-wide audit** may provide.

4. **Audit Proposals and Format.** The Service audit organizations may **submit** suggestions for **DoD-wide** audits. Audit proposals **submitted** shall be in the **following** fact sheet format:

- a. Title
- b. Functional. Area
- c. Background
- d. Prior Audit Coverage
- e. Audit Objectives and Scope
- f. Criteria
- g.** Reason for Project and Coverage
- h. Specific Issues
- i. Potential Benefits

The enclosure provides a description of each data element.

5. Data Consolidation. Because the **OAIG-AUD** is in a unique **position** to evaluate the need for a DOD-wide audit and its feasibility, it shall **accumulate** suggestions for DOD-wide audit topics. **The OAIG-AUD** shall also consolidate the individual audit **proposals** and fact sheets, and distribute the package to **members** of the **Audit** Chiefs' Council for evaluation and cement. The **OAIG-AUD** shall coordinate material to be presented to the Audit Chiefs' Council with the **OAIG-APO** who prepares the agenda for Council **meetings**.

6. Preliminary Planning and Selection. During regularly scheduled meetings, the Audit Chief s' Council shall review and discuss **DoD-wide** audit proposals. **Recommendations** shall be developed as to the disposition of each **audit** proposal; e.g., either approved, rejected, further researched, or **accomplished** as an interservice audit by the **OAIG-AUD**. Based on **recommendations from members** of the Audit Chief s' Council, the IG, **DoD**, shall select those audit proposals requiring further research by the **DoD** central internal audit organizations. The IG, **DoD**, also shall make the final selection and approval of **all DoD-wide audits, includ-**ing designation of a lead **audit** organization, participants, and starting dates for survey work. Problems such as a lack of funding for **temporary** duty travel needed to participate in the audit, shall be brought to the attention of the IG, **DoD**, to enable resolution of the matter or a decision on other alternatives.

G. DOD-WIDE AUDIT PERFORMANCE

1. Responsibilities

a. The lead audit organization shall have the overall responsibility and authority for directing, coordinating, and monitoring DOD-wide audits f ran start to finish. Additionally, the lead **audit** organization shall:

(1) Perform an audit survey and participate in the audit "go" or "**no-go**" decision making process after completion of the **audit** survey work by the other participating audit organizations.

(2) **Accomplish audit** objectives and process audit results within its area of primary jurisdiction.

(3) Prepare a comprehensive summary report on the results of each **DoD-wide** audit.

b. The participating **DoD** central internal **audit** organizations, within their areas of primary jurisdiction, shall:

(1) Perform an audit survey and **accomplish** the **audit** objectives.

(2) Prepare draft and final **reports** for management **comments**.

(3) **Submit copies** of draft and final reports to the lead audit organization.

(4) Provide any agreed to summarization or other data needed by the lead audit organization in preparation of the summary report.

2. Project Initiation

a. The **IG, DoD**, shall issue a memorandum to the applicable **OSD** officials, Service Secretaries, or Heads of Defense Agencies **announcing** the scheduled DOD-wide audit effort. The announcement memorandum shall **include** the survey start date, audit objectives, and **scope** of the audit effort.

b. The participating **DoD** central internal audit organizations shall provide the lead audit organization with the name of the individual designated to manage the **audit** effort for their agency.

c. A joint planning meeting with the various representatives from each audit organization shall be scheduled by the lead audit organization representative about 2 months before the planned start of the survey by any of the **DoD** central audit organizations. The purpose of the meeting shall be to discuss and reach agreement on **common** survey objectives and scope, selection of **audit** sites and **coverage**, audit resources and techniques to be used (e.g., use of statistical **sampling**), and **uniform** start and/or **completion** dates. The lead audit organization representative also shall:

(1) Document and distribute to all participants the results of the planning meeting and the agreed-upon survey objectives and scope, level of effort, **audit** approach, and milestone dates.

(2) Prepare a memorandum from the lead audit organization to members of the Audit Chiefs' Council outlining the results of the planning meeting and highlighting any issues requiring resolution before initiating the **audit** survey.

d. Effective preplanning is a critical and essential element to the successful **accomplishment** of a DoD-wide audit. Before the expenditure of audit resources, the Audit Chiefs' Council shall approve the following:

(1) Survey objectives and scope.

(2) Selection of audit survey sites and coverage.

(3) Number of auditor days planned.

(4) Audit approach.

(5) Uniform start and/or completion dates.

3. Survey Phase

a. The lead **audit** organization representative shall prepare the survey program (s) for audit sites within the lead audit organization's area of primary jurisdiction. Survey programs prepared by the participating audit organizations shall be reviewed and approved by the lead audit organization representative to make sure that the survey programs **are** sufficiently uniform and adequately address:

(1) The audit management issues approved by the Audit Chiefs' Council as outlined in subparagraphs G. 2.d. (1) through G. 2.d. (5) , above.

(2) **The** desired level of standardization needed among the **DoD** central internal audit organizations to ensure an overall conclusion is made on each survey objective.

b. The lead audit organization representative shall inordinate and monitor the survey efforts of the **DoD** central internal audit organizations. Effective coordination and monitorship of the audit survey phase shall include the following activities:

(1) Conducting periodic meetings with representatives f ran each of the participating organizations. The attendees shall review audit progress and leads, identify the need for any modifications to planned **audit** work, and refine audit milestone dates.

(2) Making periodic field visits to audit sites managed by the **DoD** central internal audit organizations. The purpose of field visits shall be to review audit leads and exchange information.

(3) Resolving problems that may occur during the **audit** survey phase.

(4) Documenting and retaining with the audit working papers a description of the efforts to coordinate and monitor the **DoD-wide** audit survey.

c. After **completion** of audit survey work, the lead **audit** organization representative shall convene a meeting to finalize the audit **approach**, milestone dates, and mandatory objectives for the MD-wide **audit**. The other participating audit organizations may propose additional audit objectives. The rationale for adding more audit objectives and the impact **on** dates for **completing** the **DoD-wide** audit shall be explained and documented. The lead audit organization representative shall:

(1) Document and distribute to all participants the results of the audit survey and the agreed-upon audit execution objectives and scope, selection of **audit** sites and coverage, audit resources to be used (e.g., level of effort), **audit approach**, and milestone dates.

(2) Brief the **Audit Chiefs' Council** on the **audit** survey results and expected advantages and disadvantages of doing the **DoD-wide** audit. The briefing shall **include** a **recommenda**tion for a "go" or "no-go" decision for continuing the effort as a DoD-wide audit.

d. The IG, **DoD**, shall approve the continuation of the **DoD-wide** audit into the execution phase based on **recommenda**tions f ran members of the **Audit Chiefs' Council**. **Approval** also shall be given to the following:

(1) Audit execution objectives and **scope**.

(2) Selection of audit sites and coverage.

(3) **Number** of auditor days planned.

(4) **Audit** approach.

(5) **Uniform** start and/or completion dates.

If the **audit** is discontinued as a **DoD-wide** audit effort, the subject matter shall be considered for **audit** coverage as individual **audits**, as applicable.

4. **Audit Execution Phase**

a. The IG, **DoD**, shall issue a memorandum to **applicable** OSD officials and the Service Secretaries announcing any significant changes to the original audit objectives. Where the lead **audit** organization is not already the **OAIG-AUD**, then that organization shall prepare a draft memorandum explaining the change(s) and forward it to the **OAIG-AUD** for the necessary action.

b. The lead audit organization representative shall prepare the audit guide (s) for **audit** sites within the lead audit organization's area of primary **jurisdiction**. **Audit** guides prepared by the participating **DoD** central internal **audit** organizations shall be **reviewed** and approved by the lead audit organization representative to make sure that the audit(s) are sufficiently uniform and **adequately address**:

(1) The **audit management** issues approved by the **Audit Chiefs'** Council as outlined in subparagraphs G. 3.d. (1) through G. 3.d. (5), above.

(2) The desired scope of **audit** needed among the participating audit organizations to ensure an overall conclusion is made on each mandatory objective.

c. Uneven **audit** coverage may lead to the misconception that **problems** exist in one organization and not in another. To avoid this, the lead audit **organization** representative shall coordinate and monitor the activities of the participating audit organizations to include the following:

(1) Conducting periodic **in-process** review meetings with key representatives from each of the participating audit organizations. The attendees shall review audit progress: identify probable conclusions; identify the need for any modifications to planned audit work; and refine audit milestone dates.

(2) Convening and/or attending periodic workshops.

(3) Making periodic field visits to audit sites managed by the participating audit organizations. **The purpose** of field visits shall be to **review audit leads**, draft findings and supporting working papers, and exchange **information**.

(4) Resolving problems that may occur during the audit process.

(5) Documenting and retaining with the audit working papers a description of the efforts made to coordinate and monitor the **DoD-wide audit**.

d. The lead audit organization representative **shall** prepare periodic status reports (i.e., monthly, quarterly) for coordinating and monitoring the **DoD-wide** audit. The audit control point **from** each of the participating audit

organizations shall provide information and data needed by the lead **audit** organization for preparing the status report. The **DoD-wide audit** status reports shall be initiated and updated before scheduled meetings of the Audit Chiefs' Council and shall be included in read-ahead **material** provided to Council members. The status reports shall contain the following information:

- (1) Progress on **accomplishing** the audit objectives.
- (2) **Synopsis** of tentative findings and **conditions** being developed.
- (3) Potential **recommendations** to **OSD** and/or Service **management**.
- (4) Significant conditions that may hamper the **accomplishment** of **the** approved objectives.
- (5) Needed revisions to audit milestone dates.

e. The Audit Chief s' Council meetings shall be a forum for reviewing **the** status of DoD-wide audits in **process** and for resolving significant issues.

f. The tentative nature of **all** draft findings and **recommendations** shall be observed, and due care shall **be** taken when sharing information among the **DoD** central internal audit organizations on the tentative results of audit. The tentative results of **audit** shall not be released to any individual or organization external to the participating audit organizations unless expressed permission is provided by the originating audit organization.

5. Audit Reporting Phase

a. On completion of the **audit** execution phase, the participating **audit** organizations shall prepare and issue draft **reports** through normal reporting channels. All audit **reports** must contain conclusions on each mandatory **audit** objective. Copies of all draft and **subsequent** final **reports** issued by the participating **audit** organizations shall be provided to the lead **audit** organization representative. The lead organization shall exercise care in handling **and** discussing audit findings of a draft nature **from** another **Component**, and shall await management replies to draft audit findings before **completing** the **summary** audit report.

b. **Reports** issued **by** and other information obtained **f** ran the participating audit organizations shall be used to prepare a canprehensive **summary** report for the **OSD-level** management review and **comment**. The **summary** DoD-wide audit report shall contain the following:

- (1) Statement on the **purpose**, objectives, and scope of the audit.
- (2) Summary of audit results on each of the mandatory audit object ives and conclusions.
- (3) Recommendations and supporting findings.

c. To expedite and facilitate the **preparation** of the draft **summary** **DoD-wide** audit report, it may not **be** necessary to wait until **command** replies are received on each finding and **recommenda**tion in individual draft **reports** issued by

the DoD central internal audit organizations. This is primarily relevant to audit issues that may have little or no impact on the draft **summary DoD-wide audit** report. To the extent possible, the draft audit reports prepared by the Service audit organizations and the draft **summary DoD-wide** audit report should be prepared in parallel to expedite the release of the final **summary** MD-wide audit report.

d. Before issuing the draft **summary DoD-wide** audit report to OSD management for review **and comment**, the draft report shall be furnished to the participating **audit** organizations. The audit organizations shall:

(1) Point out any areas of disagreement with facts, conclusions, **and/or recommendations**.

(2) Be prepared to support the conclusions and any specific statements on their respective organizations.

e. The draft and final **summary DoD-wide** audit report shall be signed by the IG, **DoD**.

f. In cases where an audit **report** is **not** considered necessary (e.g., where the Service audit organization merely gathers information for submission to the lead organization), participating **audit** organizations shall keep their respective Components advised of the information provided and **how** it may be used.

H. **FOLLOWUP AND RESOLUTION**

1. The **IG, DoD**, will be responsible for assisting in the audit **followup** and resolution process affecting the **summary DoD-wide** audit report in accordance with procedures **specified in DoD Directive 7650.3** (reference (p)) . .

2. The participating audit organizations shall assist in the audit **followup** and **resolution process affecting the audit reports** issued within their respective jurisdictions as specified in reference (p).

DOD-WIDE AUDIT FACT SHEET

A. TITLE OF AUDIT

B. FUNCTIONAL AREA

This section should list one or **more** of the 34 functional area designations outlined in Chapter 16 of this **Manual** that best describes the area(s) to be covered.

C. BACKGROUND

A brief untechnical **description** of the subject area selected for audit should be added to the **background section**. The description should include **purpose of the subject area, the roles and responsibilities** of the DoD and the Service managers, size **and** scope of the subject area, **and** reasons for the audit proposals; i.e., high-level interest, required **and/or** requested. The background should be limited to **two** paragraphs.

D. PRIOR ADDIT COVERAGE

List and describe previous and ongoing **audit coverage** by the **DoD** central internal audit organizations and the **GAO** to include **audit** report references and dates. Describe **the** scope and results of recently **completed** or ongoing audits.

E. AUDIT OBJECTIVES AND SCOPE

1. This is the most important part of the fact sheet. **The** objectives need to describe clearly and succinctly what **the audit** teams shall evaluate. **The** objectives must be doable within **the** audit survey and execution period. Two or three specific objectives are all that should be listed depending on the number of locations to be **included** in the **scope** of the **audit**. The objectives should be structured so that they specifically may be addressed during the **audit**.

2. The **objectives** and scope should be tailored to the type of **audit** being proposed. Required and requested audit proposals specifically should be designed to meet the objectives of the tasking. Self-initiated audits should be designed to provide effective coverage of subjects for which the Service audit organizations have primary **responsibility** in accordance with **OMB** Circular No. A-73 and **DoD** Directive 7600.2 (references (b) and (k)).

3. The statement on the scope of **audit** should **summarize** the subject area and the primary operating activities; e.g., **procurement** of initial spares at, four major buying **commands**, implementation of internal controls by the Defense Personnel Support Center, etc.

F. CRITERIA

This section shall show the criteria that the **audit** team shall use to evaluate the subject area; e.g., **DoD** policy, Directives, Instructions, Federal Acquisition Regulations, etc.

G. REASON FOR COVERAGE

This section shall display a brief recap of the prior sections; e.g., the proposed audit project was requested by a Service client (specify); the subject area is significant and of high interest to the Congress, the **OMB**, the Secretary of Defense, the IG, **DoD**; and the subject area has not been adequately **and/or** recently covered. In this section, state any other reasons for proposing the audit project.

H. IDENTIFICATION OF SPECIFIC ISSUES

In this section, the major issues and/or problem areas that are related to the subject area of the proposed audit project should be described; e.g., **Competitive** Procurement, Contracting Out, Internal Control, Test and Evaluation, Independent Research and Development, etc.

I. POTENTIAL BENEFITS

This section shall include a description of **anticipated** benefits such as **budget** savings, cost avoidances, stronger internal controls, **compliance** with applicable laws and regulations, **manpower** reductions, and improvement of program results. These descriptions shall parallel the stated audit objectives and issues.